



To: Legislative Fiscal Committee
From: Holly M. Lyons, Fiscal Services Division Director
Subject: Status of the FY 2012 General Fund Budget
Preliminary Projection of the FY 2013 and FY 2014 General Fund Budget
Date: October 12, 2012

Attached is a document showing the status of the General Fund Budget for FY 2012, FY 2013, and Projected FY 2014.

Page 1 compares the balance sheet for FY 2012 and FY 2013 at the end of the Legislation Session to the actual FY 2012 and the revised FY 2013, based on the October 11, 2012, revenue estimate. Note that revenues exceeded projections for FY 2012 by \$258.0 million, resulting in an ending balance or surplus of \$688.1 million.

Page 2 is the Projected Condition of the General Fund budget for FY 2014. **Please note that this is a preliminary projection, and will change after the December Revenue Estimating Conference (REC) meeting, and again after the Governor makes his budget recommendations.** This preliminary projection is intended solely to provide a framework to assist the General Assembly in evaluating budget decisions for the next fiscal year. We feel the report helps to put the latest revenue estimates of the REC into perspective when incorporated into the General Fund balance sheet. Another necessary component of the FY 2014 projection is estimating appropriations. Similar to past years, we have accomplished this through using the enacted appropriations from FY 2013 as the baseline for FY 2014, and then estimating the incremental increases and decreases associated with major programs that will likely occur under current law. These incremental changes are commonly referred to as Built-in and Anticipated Expenditures.

There are unknown events that could have a significant impact on the FY 2014 budget; however, it is not yet possible to estimate these impacts until additional information can be collected. These include:

- **Collective Bargaining:** Increased costs associated with State employee salary and benefit changes will not be known until negotiations have been completed through the collective bargaining process.
- **Sequestration of Federal Programs:** The federal Budget Control Act of 2011 included a provision that automatically reduces federal spending, known as sequestration, through a combination of across-the-board spending reductions in the event that the Joint Select Committee on Deficit Reduction did not adopt a deficit reduction plan. Due to the Committee's failure to adopt a deficit reduction plan, sequestration will go into effect on January 2, 2013, unless Congress takes additional action. Current estimates suggest reductions of approximately \$72.5 million in non-defense federal funds to Iowa in FFY 2013. The Federal Funds Information for the States (FFIS) has identified 28 programs in Iowa that will definitely be affected resulting in an estimated reduction of \$49.7 million in federal funds.
- **Expiration of Federal Tax Cuts:** Under current law, certain federal tax credits and other preferences (the Bush-era tax and the 2.0% payroll tax reduction) will expire January 1, 2013. With one exception, the impact of the Bush-era tax changes, due to Iowa's federal deductibility statute, have been incorporated into the October 11 REC revenue projections for FY 2013 and FY 2014. The REC

assumed, as has been the Conference tradition for many years, the Alternative Minimum Tax (AMT) will be "patched" for tax year 2013.

Should Congress extend all current expiring corporate and individual income tax provisions for at least one year, General Fund revenue will increase by an estimated \$89.9 million in FY 2013 and \$175.6 million in FY 2014. Should Congress allow all tax provisions to expire and also not patch the AMT, FY 2013 General Fund revenue will decrease by an estimated \$0.8 million in FY 2013 and \$129.4 million in FY 2014.

Page 3 is a listing of the Estimated Contingent Liabilities for State Tax Credits. This listing is based on information provided by the Department of Revenue prior to October 2012 and is subject to change as more information becomes available.

Page 4 is a schedule of the State of Iowa Reserve Funds, and reflects that the reserve funds have reached their statutory maximum in FY 2012, and are projected to reach their maximum in FY 2013 and FY 2014. The current combined balance in the reserve funds is \$595.5 million.

Page 5 is a schedule of the Taxpayer Trust Fund. The amount that the Taxpayer Trust Fund can receive in a given fiscal year is limited to the difference between the actual net General Fund revenue for the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year. However, the amount cannot exceed \$60.0 million in any given fiscal year. Based on current statute, the Trust Fund will receive \$60.0 million in FY 2013 and is estimated to receive an additional \$60.0 million in FY 2014. Moneys in the Trust Fund can only be used pursuant to appropriations made by the General Assembly for tax relief.

Page 6 is the LSA's estimate of the incremental increases and decreases associated with major programs that will likely occur under current law. These incremental changes are commonly referred to as Built-in and Anticipated Expenditures. This estimate is likely to change between now and the Legislative Session as more information becomes available.

If you have any questions, please feel free to contact me at 515-281-7845 or Dave Reynolds at 515-281-6934.

State of Iowa
Changes in the FY 2012 and FY 2013 General Fund Budget
(Dollars in Millions)

	FY 2012			FY 2013		
	End of Session	Actual	Variance	End of Session	Revised ^{1/}	Variance
Funds Available:						
Receipts	\$7,248.0	\$7,372.3	\$ 124.3	\$7,494.9	\$ 7,691.7	\$ 196.8
Refund (Accrual Basis)	- 884.2	- 820.6	63.6	- 919.0	- 896.0	23.0
School Infras. Refunds (Accrual)	- 412.5	- 410.6	1.9	- 424.9	- 426.6	- 1.7
Accruals (Net)	16.6	61.3	44.7	15.1	16.8	1.7
Transfers	85.2	108.7	23.5	87.2	96.6	9.4
Subtotal Receipts	<u>6,053.1</u>	<u>6,311.1</u>	<u>258.0</u>	<u>6,253.3</u>	<u>6,482.5</u>	<u>229.2</u>
Economic Emergency Fund Transfer	381.4	381.4	0.0	295.3	552.6	257.3
Total Funds Available	<u>\$6,434.5</u>	<u>\$6,692.5</u>	<u>\$ 258.0</u>	<u>\$6,548.6</u>	<u>\$ 7,035.1</u>	<u>\$ 486.5</u>
Appropriations and Expenditures:						
Enacted Appropriations	\$5,999.7	\$5,999.7	\$ 0.0	\$6,222.6	\$ 6,222.6	\$ 0.0
Adjustments to Standing Appropriations	7.8	10.2	2.4		4.5 ^{2/}	4.5
Supreme Court Decision	- 15.9	- 15.9	0.0			0.0
Supplemental/Deappropriations	18.5	18.5	0.0		45.0 ^{3/}	45.0
Total Appropriations	<u>\$6,010.1</u>	<u>\$6,012.5</u>	<u>\$ 2.4</u>	<u>\$6,222.6</u>	<u>\$ 6,272.1</u>	<u>\$ 49.5</u>
Reversions	<u>- 6.3</u>	<u>- 8.1</u>	<u>- 1.8</u>	<u>- 2.0</u>	<u>- 5.0</u>	<u>- 3.0</u>
Net Appropriations	<u>\$6,003.8</u>	<u>\$6,004.4</u>	<u>\$ 0.6</u>	<u>\$6,220.6</u>	<u>\$ 6,267.1</u>	<u>\$ 46.5</u>
Ending Balance - Surplus	<u>\$ 430.7</u>	<u>\$ 688.1</u>	<u>\$ 257.4</u>	<u>\$ 328.0</u>	<u>\$ 768.0</u>	<u>\$ 440.0</u>

^{1/} The revised FY 2013 revenues are based the Revenue Estimating Conference's October 11 estimate and assumes a 2.7% increase over the actual FY 2012 revenues.

^{2/} The appropriation for State Aid to Schools was increased by \$4.5 million to reflect a changes in various factors that comprise the school aid formula including: enrollment, property valuations, and special education.

^{3/} A supplemental appropriation of \$45.0 million is currently projected for FY 2013 and is based on the Medicaid Forecasting Group's current mid-point estimate for FY 2013.

State of Iowa
Projected Condition of the General Fund Budget
(Dollars in Millions)

	Actual FY 2012	Revised FY 2013 ^{1/}	Projected FY 2014 ^{1/}
Funds Available:			
Receipts	\$ 7,372.3	\$ 7,691.7	\$ 7,989.5
Refund (Accrual Basis)	- 820.6	- 896.0	- 932.0
School Infrs. Refunds (Accrual)	- 410.6	- 426.6	- 440.3
Accruals (Net)	61.3	16.8	9.1
Transfers	108.7	96.6	97.3
Subtotal Receipts	<u>6,311.1</u>	<u>6,482.5</u>	<u>6,723.6</u>
Economic Emergency Fund Transfer	381.4	552.6	629.5
Total Funds Available	<u><u>\$ 6,692.5</u></u>	<u><u>\$ 7,035.1</u></u>	<u><u>\$ 7,353.1</u></u>
Expenditure Limitation			<u><u>\$ 7,285.9</u></u>
Estimated Appropriations and Expenditures:			
Enacted Appropriations/FY 14 Baseline	\$ 5,999.7	\$ 6,222.6	\$ 6,222.6
Adjustments to Standing Appropriations	10.2	4.5 ^{2/}	
Supreme Court Decision	- 15.9		
Supplemental/Deappropriations	18.5	45.0 ^{3/}	
Built-in and Anticipated Increases			333.5
Appropriation Total Before Balance Adj.	<u>\$ 6,012.5</u>	<u>\$ 6,272.1</u>	<u>\$ 6,556.1</u>
Est. Adjustment to Balance Budget			<u>0.0</u>
Total Appropriations	<u><u>\$ 6,012.5</u></u>	<u><u>\$ 6,272.1</u></u>	<u><u>\$ 6,556.1</u></u>
Reversions	<u>- 8.1</u>	<u>- 5.0</u>	<u>- 5.0</u>
Net Appropriations	<u><u>\$ 6,004.4</u></u>	<u><u>\$ 6,267.1</u></u>	<u><u>\$ 6,551.1</u></u>
Ending Balance - Surplus	<u><u>\$ 688.1</u></u>	<u><u>\$ 768.0</u></u>	<u><u>\$ 802.0</u></u>

^{1/} The FY 2013 and FY 2014 revenues are based the Revenue Estimating Conference's October 11 estimate and assumes increases of 2.7% and 3.7%, respectively.

^{2/} The appropriation for State Aid to Schools was increased by \$4.5 million to reflect a changes in various factors that comprise the school aid formula including: enrollment, property valuations, and special education.

^{3/} A supplemental appropriation of \$45.0 million is currently projected for FY 2013 and is based on the Medicaid Forecasting Group's current mid-point estimate for FY 2013.

Estimated Contingent Liabilities for State Tax Credits

(Dollars in Millions)

Tax Credit Program	FY 2012	FY 2013	FY 2014	Percent of Total
<u>Capped Programs</u>				
High Quality Job Program	\$ -7.0	\$ -45.9	\$ -61.4	15.8%
Enterprise Zone Program	-7.4	-41.3	-43.6	11.2%
Historic Preservation and Cultural and Entertainment District Tax Credit	-29.7	-32.2	-37.3	9.6%
Renewable Energy Tax Credit	-3.3	-9.0	-17.0	4.4%
Enterprise Zone Program - Housing Component	-6.7	-11.8	-11.8	3.0%
School Tuition Organization Tax Credit	-6.1	-8.4	-8.9	2.3%
Accelerated Career Education Tax Credit	-3.6	-5.4	-5.4	1.4%
Agricultural Assets Transfer Tax Credit	-1.7	-4.0	-5.1	1.3%
Endow Iowa Tax Credit	-2.5	-4.5	-4.7	1.2%
Venture Capital Tax Credit - Iowa Fund of Funds	0.0	-4.3	-4.0	1.0%
Redevelopment Tax Credit	-0.3	-0.1	-2.8	0.7%
Venture Capital Tax Credit - Qualified Bus. or Comm.-Seed Capital Fund	-0.3	-1.2	-1.6	0.4%
Wind Energy Production Tax Credit	-0.8	-1.5	-1.5	0.4%
Solar Energy System Tax Credit	0.0	-0.8	-1.3	0.3%
Film, Television, and Video Project Promotion Program - Awarded	-0.3	-1.3	-0.7	0.2%
Wage-Benefits Tax Credit	-3.6	-0.9	-0.6	0.2%
Venture Capital Tax Credit - Venture Capital Funds	-0.1	-0.2	-0.3	0.1%
Total Capped Programs	\$ -73.4	\$ -172.8	\$ -208.0	53.4%
<u>Uncapped Programs</u>				
Iowa Industrial New Job Training Program (260E)	\$ -48.6	\$ -49.9	\$ -50.5	13.0%
Research Activities Tax Credit	-35.1	-37.0	-39.8	10.2%
Earned Income Tax Credit	-30.4	-30.9	-27.5	7.1%
Supplemental Research Activities Tax Credit	-14.4	-17.5	-18.3	4.7%
Tuition and Textbook Tax Credit	-14.9	-15.1	-15.1	3.9%
Biodiesel Blended Fuel Tax Credit	-4.5	-6.5	-7.6	2.0%
Targeted Jobs Tax Credit from Withholding	-2.2	-4.2	-5.2	1.3%
Child and Dependent Care Tax Credit	-7.5	-6.8	-4.7	1.2%
Ethanol Promotion Tax Credit	-3.2	-3.9	-2.7	0.7%
E85 Gasoline Promotion Tax Credit	-1.3	-1.2	-2.3	0.6%
Geothermal Heat Pump Tax Credit	0.0	-1.2	-1.8	0.5%
Charitable Conservation Contribution Tax Credit	-0.6	-0.9	-1.0	0.3%
New Capital Investment Program	-0.3	-0.9	-0.9	0.2%
New Jobs and Income Program	-14.1	-9.4	-0.9	0.2%
Volunteer Firefighter and EMS Tax Credit	0.0	0.0	-0.9	0.2%
Early Childhood Development Tax Credit	-0.8	-0.5	-0.5	0.1%
E15 Gasoline Promotion Tax Credit	0.0	0.0	0.0	0.0%
Ethanol Blended Gasoline Tax Credit	0.0	0.0	0.0	0.0%
Total Uncapped Programs	\$ -177.9	\$ -185.9	\$ -179.7	46.1%
<u>Other Programs</u>				
Film Program - Under Review	0.0	-2.9	-1.7	0.4%
Funds Recovered from Defaulted Awards	0.2	0.0	0.0	0.0%
Tax Credit Program Total	\$ -251.1	\$ -361.6	\$ -389.4	100.0%

Notes:

Estimates are based on information provided by the Department of Revenue prior to the October 2012, Revenue Estimating Conference and may differ from information provided in the Department's Contingent Liabilities Report.

The numbers may not equal totals due to rounding.

State of Iowa Reserve Funds

(Dollars in Millions)

Cash Reserve Fund (CRF)	Actual FY 2012	Estimated FY 2013	Estimated FY 2014
Funds Available			
Balance Brought Forward	\$ 341.2	\$ 446.6	\$ 466.8
Gen. Fund Appropriation from Surplus	554.6	688.1	768.0
Total Funds Available	\$ 895.8	\$ 1,134.7	\$ 1,234.8
Appropriations & Transfers			
Transfer to General Fund	\$ 0.0	\$ 0.0	\$ 0.0
Total Appropriations & Transfers	\$ 0.0	\$ 0.0	\$ 0.0
Excess Transferred to EEF	\$ - 449.2	\$ - 667.9	\$ - 730.5
Balance Carried Forward	\$ 446.6	\$ 466.8	\$ 504.3
<i>Maximum 7.5%</i>	<i>\$ 446.6</i>	<i>\$ 466.8</i>	<i>\$ 504.3</i>

Economic Emergency Fund (EEF)	Actual FY 2012	Estimated FY 2013	Estimated FY 2014
Funds Available			
Balance Brought Forward	\$ 99.1	\$ 148.9	\$ 155.6
Excess from Cash Reserve	449.2	667.9	730.5
Total Funds Available	\$ 548.3	\$ 816.8	\$ 886.1
Appropriations & Transfers			
Excess Transferred to General Fund	\$ - 381.4	\$ - 552.6	\$ - 629.5
Excess Transferred to Taxpayer Trust Fund	0.0	-60.0	-60.0
Transfer to RIIF	0.0	-20.0	0.0
SF 2071 - MH Property Tax Relief Fund	-7.2	0.0	0.0
Missouri River Flood Damage	-2.9	0.0	0.0
Executive Council - Performance of Duty	-7.9	-28.6	-28.5
Balance Carried Forward	\$ 148.9	\$ 155.6	\$ 168.1
<i>Maximum 2.5%</i>	<i>\$ 148.9</i>	<i>\$ 155.6</i>	<i>\$ 168.1</i>

Combined Reserve Fund Balances	Actual FY 2012	Estimated FY 2013	Estimated FY 2014
Cash Reserve Fund	\$ 446.6	\$ 466.8	\$ 504.3
Economic Emergency Fund	148.9	155.6	168.1
Total CRF and EEF	\$ 595.5	\$ 622.4	\$ 672.4

Taxpayer Trust Fund

(Dollars in Millions)

	<u>Actual FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>
Funds Available			
Balance Brought Forward	\$ 0.0	\$ 0.0	\$ 60.0
Economic Emergency Transfer	0.0	60.0	60.0
Total Funds Available	<u>\$ 0.0</u>	<u>\$ 60.0</u>	<u>\$ 120.0</u>
Total Expenditures	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
Balance Carried Forward	<u><u>\$ 0.0</u></u>	<u><u>\$ 60.0</u></u>	<u><u>\$ 120.0</u></u>

Taxpayer Trust Fund Calculation

(Dollars in Millions)

	<u>FY 2012</u>	<u>FY 2013</u>
Actual FY 2012/FY 2013 REC Est (Oct. 2012)	\$ 6,311.1	\$ 6,482.5
Adjusted Revenue Estimate	- 5,954.1	- 6,224.3
Maximum to Taxpayer Trust Fund	<u><u>\$ 357.0</u></u>	<u><u>\$ 258.2</u></u>

STATE OF IOWA
FY 2014 General Fund Built-in and Anticipated Expenditures
(Dollars in Millions)

	LSA
<u>Built-in Changes</u>	<u>Estimates</u>
DHS - Medical Assistance	\$ 158.0
Homestead Tax Credit	30.0
DNR - Resource Enhancement and Protection Program (REAP)	20.0
DOM - Technology Reinvestment Fund	17.5
ED - Instructional Support Program	14.4
DHS - Mental Health Property Tax Relief (Medicaid)	7.2
ED - K-12 School Foundation Aid (0% Allowable Growth)	6.4
DHS - Dental Home	5.0
DPS - Peace Officer Retirement	5.0
DOM - State Appeal Board Claims	3.4
DHS - hawk-i	3.0
EDA - Tourism and Marketing	0.3
EDA - World Food Prize	0.3
DCA - County Endowment	0.1
Subtotal	<u>\$ 270.6</u>
<u>Anticipated Expenditure Changes</u>	
DOC - Staff Additional CBC and Prison Beds	\$ 29.7
DHS - Mental Health Levy Equalization	18.0
DHS - Adoption Subsidy Program	7.6
DIA - Medicaid Fraud Fund Replacement	3.0
DHS - Child Care Assistance	3.0
DPS - Vehicle Depreciation	1.6
DPS - Peace Officer Retirement increased contribution	0.9
DHS - CCUSO (Increase in offender population)	0.8
DHS - Child Welfare Programs	0.3
ED - Reading Research Program	-2.0
Subtotal	<u>\$ 62.9</u>
Total Expenditure Increases	<u><u>\$ 333.5</u></u>

NOTES:

The above estimates for FY 2014 reflect the incremental increases above the enacted FY 2013 appropriations at the end of the 2012 Legislative Session. The estimates, although subject to change, are used to provide a preliminary projection of the General Fund and to identify significant expenditure changes to assist the General Assembly in evaluating budget decisions for the next fiscal year. There are unknown events that could have a significant impact on FY 2014 appropriations; however, it is not yet possible to estimate these impacts until additional information can be collected. These include:

1. Collective Bargaining: Increased costs associated with State employee salary and benefit changes will not be known until negotiations have been completed through the collective bargaining process.
2. Sequestration of Federal Programs: The federal Budget Control Act of 2011 included a provision that automatically reduces federal spending, known as sequestration, through a combination of across-the-board spending reductions and spending targets in the event that the Joint Select Committee on Deficit Reduction did not adopt a deficit reduction plan. Due to the Committee's failure to adopt a deficit reduction plan, sequestration will go into effect on January 2, 2013, unless Congress takes additional action. Current estimates suggest reductions of approximately \$72.5 million in federal funds to Iowa in FFY 2013.